

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT PORT AUTHORITY
FISCAL YEARS ENDED JUNE 30, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

Table of Contents

EXECUTIVE SUMMARY	i
AUDITORS' REPORT.....	1
COMMENTS.....	2
FOREWORD	2
RÉSUMÉ OF OPERATIONS	4
Revenue Receipts	4
Expenditures	5
State Resources.....	6
STATE AUDITORS' FINDINGS AND RECOMMENDATIONS.....	7
Lack of Policies and Procedures Required by Legislation.....	7
Accounting System Deficiencies.....	9
Personnel Policy Deficiencies	10
Poor Records Management.....	13
Lack of Policies and Poor Documentation over Travel, Meals, and Entertainment Expenses.....	15
Excessive Legal Costs	17
Selection of Consultants	18
Ethics Policy Conflict of Interest Provisions.....	20
Lack of Policies for Credit Card Use:	21
Employees Misclassified as Consultants.....	22
Noncompliance with Reporting Requirements	23
RECOMMENDATIONS	25
Status of Prior Audit Recommendations:	25
Current Audit Recommendations:.....	26
ACKNOWLEDGMENTS	29
CONCLUSION.....	30

October 31, 2019

EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122 and 2-90 of the Connecticut General Statutes, we have audited certain operations of the Connecticut Port Authority (CPA). The objectives of this review were to evaluate the authority's internal controls; compliance with policies and procedures, as well as certain legal provisions; and management practices and operations for the fiscal years ended June 30, 2018 and 2019.

The key findings and recommendations are presented below:

Page 7	The port authority did not properly adopt certain statutorily required policies and procedures. The Connecticut Port Authority should implement formal and complete written policies concerning the use of surplus funds, affirmative action, and ethics and provide its employees with annual ethics training. (Recommendation #1.)
Page 9	There were problems with the port authority's accounting system. The Connecticut Port Authority should provide its employees with the necessary training and guidance to properly operate its accounting system. (Recommendation #2.)
Page 10	The port authority's employee manual is incomplete, inconsistent, and does not reflect the authority's actual practices. The Connecticut Port Authority should review its employee manual and make necessary changes to ensure that it is complete, consistent, and reflects the authority's practices. (Recommendation #3.)
Page 13	The port authority does not have a proper records management system. The Connecticut Port Authority should establish official files or an electronic recordkeeping system with full records management functionality. (Recommendation #4.)
Page 14	There were a large number of exceptions related to port authority travel, meal, and entertainment expenses. The Connecticut Port Authority should establish written policies and procedures governing its travel, meal, and entertainment expenses, including the requirements for supporting documentation and approval of such expenses. (Recommendation #5.)
Page 17	The port authority incurred excessive legal expenses. The Connecticut Port Authority should only assign tasks that require legal and professional expertise to its legal and professional consultants. (Recommendation #6.)
Page 18	The port authority did not follow its procurement policies. The Connecticut Port Authority should ensure that the procurement of services is performed in the most cost-effective manner in compliance with established policies. (Recommendation #7.)

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

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October 31, 2019

AUDITORS' REPORT

We have audited certain operations of the Connecticut Port Authority in fulfillment of our duties under Section 1-122 and Section 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended June 30, 2018 and 2019. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority, as well as external parties; and testing selected transactions. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted our audit in accordance with the standards applicable to performance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform our audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides such a basis.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the

authority's management and the state's information systems, and was not subjected to the procedures applied in our audit of the authority. For the areas audited, we identified:

1. Deficiencies in internal controls;
2. Apparent noncompliance with policies and procedures or legal provisions; and
3. Need for improvement in management practices and procedures that we deemed to be reportable.

The State Auditors' Findings and Recommendations in the accompanying report presents any findings arising from our audit of the Connecticut Port Authority.

COMMENTS

FOREWORD

The Connecticut Port Authority (CPA) was established by Public Act 15-5, June Special Session, effective July 1, 2015. CPA operates principally under the provisions of Title 15, Chapter 264a of the General Statutes. Section 15-31a (a) of the General Statutes names CPA a public instrumentality and political subdivision of the state created for the performance of an essential public and governmental function. Pursuant to Chapter 12, Section 1-120, CPA is classified as a quasi-public agency subject to the requirements found in Chapter 12.

The authority oversees 3 deep water ports (Bridgeport, New Haven and New London) and various small and mid-size coastal and river harbors that make important contributions to the state's economy.

The authority's mission is to develop and market the state's ports and promote its maritime economy. Specifically, the authority:

1. Coordinates port development, focusing on private and public investments;
2. Pursues state and federal funds for dredging and other infrastructure improvements to increase cargo movement through the ports and maintain navigability of all ports and harbors;
3. Works with the Department of Economic and Community Development (DECD) and state, local, and private entities to maximize the ports' and harbors' economic potential;
4. Supports and enhances the overall development of maritime commerce and industries;
5. Coordinates the state's maritime policy and serves as the governor's principal maritime policy advisor.

Board of Directors and Administrative Officials

Pursuant to Section 15-31a of the General Statutes, the CPA Board of Directors consists of 15 voting members. Five serve as ex-officio members and 10 are appointed members.

Members of the board as of June 30, 2019, were as follows:

Ex-Officio Members:

Joseph J. Giulietti	Commissioner, Department of Transportation
David Kooris	Vice Chair, Designee of the Commissioner, Department of Economic and Community Development
Melissa McCaw	Secretary, Office of Policy and Management
Linda Savitsky	Designee of the State Treasurer, Office of the State Treasurer
Katie Scharf Dykes	Commissioner, Department of Energy and Environmental Protection

Appointed Members:

Bonnie Reemsnyder	Chair
Scott Bates	
Nancy J. DiNardo	
Pamela K. Elkow	
Donald B. Frost	
Terry Gilbertson	
John Johnson	
Grant W. Westerson	
David E. Pohorylo	
Parker S. Wise	

The board appoints the CPA executive director. Evan Matthews was appointed executive director in September 2016, and served in that capacity throughout the audited period.

Significant Legislation

Public Act 18-163, expanded the powers and duties of CPA effective October 1, 2018, authorizing it to enter into joint business ventures to advance its purposes; charge fees for its services; and provide loans, grants, and other forms of financial assistance. The act also exempted recreational vessels (i.e., those manufactured or used primarily for pleasure) less than 200 feet long from state laws on harbors and ports, including pilotage requirements.

Connecticut Pilot Commission

The Connecticut Pilot Commission assists and advises the authority on matters related to the licensure of marine pilots, the safe conduct of vessels, pilotage rates and the protection of the ports and waters of Connecticut.

Accounting Policies

With the assistance of DECD and Connecticut Innovations, Inc., CPA utilized Core-CT to account for its operations during the audited period. In addition, CPA was using QuickBooks as its official accounting system. We noted problems with CPA's use of QuickBooks during the audited period, which are discussed further in the State Auditors' Findings and Recommendations section of this report.

RÉSUMÉ OF OPERATIONS

Revenue Receipts

The following schedule presents a breakdown of cash basis revenue receipts for the audited period and the preceding year.

Connecticut Port Authority Revenue Receipts (Cash Basis)			
Revenue Receipt Description	2016-2017	2017-2018	2018-2019
Operation of port facilities:	\$	\$	\$
Variable fee	373,531	460,312	567,838
Fixed fee	213,366	197,107	652,608
Contributions from developers	-	-	220,000
Pilotage – CT waters	66,126	47,651	66,823
Other Revenue Receipts	-	1,257	542
Total	\$ 653,023	\$ 706,327	\$ 1,507,811

The principal source of port authority revenues was fees charged for the right to operate the state's New London port facilities. During most of the audited period, Logistec USA Inc. managed the port facilities. Logistec paid the state an annual fixed amount of \$195,107 plus 6.75% of total gross revenues derived from all business conducted on or from the premises, less certain exclusions.

Effective January 7, 2019, the port authority awarded the right to operate the port facilities to Gateway New London LLC for twenty years. The agreement with Gateway New London LLC provides for an annual fixed amount of \$500,000 for the first 5 years of operation with increases to \$750,000, \$1,000,000 and \$1,250,000 for each succeeding 5-year portion of the 20-year period. Gateway New London LLC must pay a variable fee equal to the greater of 7% of the gross revenues and a minimum annual guarantee established by a formula in the agreement. The significant

increase in cash basis fixed fee revenues in the 2018-2019 fiscal year reflects an advance payment of \$500,000 for the first year of operation.

Additionally, during the initial 20-year period, Gateway New London LLC is required to expend not less than \$30,000,000 for capital improvements, movable property, fixtures and fittings, and cranes. Not more than \$10,000,000 of capital maintenance expenditures may be allocated to satisfy this capital improvement commitment.

In addition to the cash basis revenue receipts listed above, the port authority was allotted \$400,000 to support its operations from the Special Transportation Fund during each year of the audited period and the 2016-2017 fiscal year. The state allotted CPA general obligation bonds of \$5,082,821, \$4,652,755 and \$27,501,000 during the 2016-2017, 2017-2018 and 2018-2019 fiscal years, respectively, for capital improvement projects and grants.

Expenditures

The following schedule presents a breakdown of cash basis expenditures for the audited period and the preceding year.

Connecticut Port Authority Expenditures (Cash Basis)			
Expenditure Description	2016-2017	2017-2018	2018-2019
Personal Services	\$ 193,079	\$ 328,887	\$ 613,119
Legal Services	85,740	243,685	670,720
Consultants	54,989	262,270	470,434
Marketing and Business Development	42,881	85,024	193,256
Engineering and Architectural Services [a]	-	(312,524)	150,094
Premises Repair & Maintenance Services	-	37,151	113,430
Community Outreach, Sponsorship and Dues	-	76,189	92,447
Insurance	2,520	58,079	59,360
Audit Services	-	22,460	13,825
General Office Expenditures	38,779	107,982	122,217
Grants	-	3,081,650	110,000
Total	\$ 417,988	\$ 3,990,853	\$ 2,608,902

[a] Net of refunds of prior period project expenditures totaling \$512,643 and \$446,065 during the 2017-2018 and 2018-2019 fiscal years, respectively.

The Connecticut Port Authority's major expenditure categories included personal services, legal services, consultants and grants. The port authority made grants under the Small Harbor Improvement Projects Program (SHIPP) during the audited period. This program, authorized by Public Act 15-1 Section 13(h)(1) of the June Special Session, was funded from the proceeds of state general obligation bonds.

The Small Harbor Improvement Projects Program provides grants to municipalities for projects that improve the infrastructure or management of local waterways. They may use the

SHIPP grant on a wide range of improvements including marina repair, dredging, boat ramp facilities improvement, breakwaters, harbor management plans and feasibility studies.

State Resources

Expenditures listed above do not include the salaries of the Department of Transportation (DOT) employees working full time on CPA projects. There were 2 DOT employees during the fiscal year ended June 30, 2018 and one during the fiscal year ended June 30, 2019. Additionally, they do not include the cost of administrative assistance provided by DECD and Connecticut Innovations, Inc.

STATE AUDITORS' FINDINGS AND RECOMMENDATIONS

Our examination of the records of the Connecticut Port Authority disclosed the following 11 findings and recommendations, of which 2 have been repeated from the previous audit:

Lack of Policies and Procedures Required by Legislation

Criteria: Section 1-101rr of the Connecticut General Statutes requires each quasi-public agency to develop ethics policies and coordinate ethics training programs for compliance with such ethics policies and the Code of Ethics for Public Officials. It also requires that the agency's ethics compliance officer provide annual ethics training to agency employees involved in contractor selection, evaluation, and supervision.

Section 1-121 of the Connecticut General Statutes establishes a process for quasi-public agencies to adopt procedures. Section 1-122 requires the Auditors of Public Accounts to determine compliance with procedures established concerning affirmative action, personnel practices, the purchase of goods and services, the use of surplus funds, and the distribution of loans, grants, and other financial assistance. This statute established the legislature's intent to require quasi-public agencies to adopt procedures concerning these specific matters.

The Connecticut Port Authority's (CPA) board-approved affirmative action plan states that CPA will develop practices to ensure that the policy's objectives are accomplished.

Condition: We noted the following exceptions related to the CPA adoption of statutorily-required policies and procedures:

- CPA did not develop ethics policies or provide annual ethics training to its employees.
- CPA did not develop procedures concerning the use of surplus funds.
- CPA did not post the notice to adopt its board-approved Equal Employment Opportunity and Affirmative Action Plan in the Connecticut Law Journal. Additionally, the authority did not develop procedures to ensure that it accomplishes the policy's objectives, as required by its plan.
- The statute requiring CPA to establish policies and procedures regarding the distribution of grants implies that the authority should also establish policies to monitor grants. Although CPA established Small Harbor Improvement Projects Program Policies and

Procedures, it did not address grant monitoring. Without proper oversight of the program, it is difficult to ensure the grantees expended funds in accordance with grant provisions.

Effect: The lack of formal and complete written procedures increases the risk that CPA may not perform certain functions, or perform them inefficiently or inaccurately.

Cause: A lack of management oversight contributed to the above conditions.

Prior Audit Finding: Elements of this finding have been previously reported in the last audit report covering the fiscal years ended June 30, 2016 and 2017.

Recommendation: The Connecticut Port Authority should implement formal and complete written policies concerning the use of surplus funds, affirmative action, and ethics. CPA should provide its employees required annual ethics training. CPA also should ensure that it publishes notices to adopt procedures in the Connecticut Law Journal 30 days prior to their adoption. (See Recommendation 1.)

Agency's Response: "Connecticut Port Authority (CPA) agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

The Authority Board of Directors approved an ethics policy and conducted ethics training for the board and CPA employees on September 4, 2019.

Policies for affirmative action practices and use of surplus funds are in development and will be presented to the Board of Directors no later than its January 2020 meeting and will be adopted no later than Q1 2020 (i.e. March 31, 2020).

CPA will update its Small Harbor Improvement Projects Program (SHIPP) Policies and Procedures to address monitoring of future funding provided to the grantees.

Future notices to adopt procedures will be published in the Connecticut Law Journal 30 days prior to adoption."

Accounting System Deficiencies

Criteria: An accounting system consists of the systems and procedures for recording, classifying, and summarizing transactions. A properly functioning accounting system that provides accurate and complete data for purposes of accountability and internal and external reporting is a key element of internal control.

Condition: We noted problems with the operation of the Connecticut Port Authority's accounting system during the audited period. For example:

- The format of CPA accounting reports was not consistent from year to year.
- CPA recorded cash transfers from Core-CT to its local bank accounts by crediting accounts receivable and/or un-deposited funds, creating illusory negative balances in these accounts of \$868,896 and \$653,576, respectively, as of June 30, 2019.
- The accounts receivable, un-deposited funds, and accounts payable balances as of June 30, 2019 contained older items unlikely to be outstanding as of that date. Although they were relatively minor in amount, their inclusion indicated that CPA was not monitoring these balances.
- The CPA financial records did not include all financial activity during the audited period. Although CPA recorded the activity shown in its Core-CT accounts into its accounting system during the 2017-2018 fiscal year, it did not record its 2018-2019 fiscal year activity.
- CPA did not record the January 2019 receipt of \$500,000 in its accounting system until June 2019.
- CPA provided us vendor transaction reports with duplicate entries.

Effect: These deficiencies reduced accountability and did not provide the necessary information for CPA management and the board to properly monitor the authority's operations. The accounting issues hampered the preparation of financial statements.

Cause: CPA did not adequately train its employees in the use of its accounting software or guide them in recording unfamiliar transactions. CPA management did not exercise proper oversight.

Prior Audit Finding: This finding was not previously reported.

Recommendation: The Connecticut Port Authority should provide its employees with the necessary training and guidance to properly operate its accounting system. (See Recommendation 2.)

Agency's Response: "CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

As part of its MOU with the Authority, OPM has contracted with a former municipal finance director who is working with staff to make improvements with the Authority's accounting systems and software. Assisting in this effort is a CPA from a local accounting firm who has expertise and certification as a trainer in QuickBooks, an industry standard financial software program, which will be utilized as the sole mechanism for Authority accounting. QuickBooks target date to be up and running properly is Q4 2019. An agreement is in place with a contractor to provide ongoing training and/or guidance to staff, as necessary."

Personnel Policy Deficiencies

Criteria: Sound business practice dictates that personnel policies and procedures should be clear, consistent, complete, and reflect actual practices.

The Connecticut Port Authority Employee Manual includes the following stipulations:

- Work hours are generally 9 a.m. to 5 p.m., Monday through Friday. Employees must maintain accurate records of time worked and absences.
- Paid time off should be taken in increments between a minimum of one-half day and generally a maximum of 1 week. Also, up to 5 days of accrued and unused paid time off may be carried over from each fiscal year to the next. In addition, employees are not to be paid for accrued leave time upon separation under any circumstances.

- Performance evaluations are given annually by the executive director at the end of the calendar year or the beginning of the next calendar year. New employees will be evaluated after their first 6 months of employment.
- Mileage reimbursement is not to be provided for travel between home and the workplace.

Condition:

We found that the CPA Employee Manual is incomplete, inconsistent, and does not reflect the authority's actual practices. For example:

- The manual is missing information related to employee accrual rates for paid time off based on years of service.

Length of Service	Paid Time Off
First Year of Employment	Up to _ Days, Prorated Based on Date of Hire
Over 1 Fiscal Year – 5 Fiscal Years	Up to _ Days
Over 5 Fiscal Years – 10 Fiscal Years	Up to _ Days
Over 10 Fiscal Years–15 Fiscal Years	Up to _ Days
Over 15 Fiscal Years	Up to _ Days

- Employee accruals were not consistent with their offer letters or the manual. For instance, employees carried over all unused paid time off from one fiscal year to the next, while the manual specifies they could carry over only 5 days. Additionally, CPA employees currently accrue 15 days of sick time annually, while their offer letters indicated they would accrue only 10 days.
- The authority paid its terminated office manager for all accrued vacation time, while the manual states “paid time off is not paid upon separation under any circumstances.”
- The manual stipulates that the authority awards paid time off on July 1st of each year, and new employees receive a prorated amount of paid time off after 90 days of employment for their first partial fiscal year. However, in practice, CPA gives its employees monthly accruals.
- The executive director did not conduct performance evaluations of the fiscal administrative assistant and manager of business development, who were employed for more than 6 months. The board of directors has not conducted a performance evaluation of the executive director since he was hired in September 2016. Although the employee manual does not require evaluations of the executive director, sound business practice dictates that the board should conduct such evaluations regularly, as the executive

director's performance is directly linked to the agency's performance.

- CPA gave its employees 3% raises effective July 1, 2019. Two employees who received raises had worked for CPA for less than a year. CPA personnel policies do not establish a mechanism to award such raises.

Additionally, we noticed instances in which the executive director's calendar indicated that he was on private business during work hours. However, he did not charge leave time for these instances, and his timesheets did not indicate that he made up this time during the pay period.

We also found that the authority reimbursed the executive director for round-trip mileage for the entire distance to attend business meetings in Connecticut to his home in Rhode Island. Although CPA policies do not address this, sound business practice dictates that, when an employee travels to or from home rather than their work station, the employee should be reimbursed only for mileage that exceeds normal daily commuting mileage.

In addition, we found that an employee used a CPA bank card to pay for gas during a business trip and was also reimbursed for the full mileage for the trip. It appears that the employee followed the direction of the office manager who approved this transaction. The executive director was also notified of this issue later, but took no corrective action.

Effect: The employee manual is incomplete, inconsistent, and does not reflect the authority's actual practices. This diminishes accountability in the workplace.

Cause: A lack of management oversight contributed to the above conditions.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should review its employee manual and make necessary changes to ensure that it is complete, consistent, and reflects the authority's practices. CPA should clarify its mileage reimbursement policy and require its employees to charge leave time when they are not at work. (See Recommendation 3.)

Agency's Response: "CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial

operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

The employee manual is in the process of being updated with the assistance of outside consultants appointed by OPM and through guidance from quasi-public agency Connecticut Innovations (CI), with which CPA has an MOU for HR-related matters. The employee manual will be reviewed and adopted no later than Q1 2020.

A mileage reimbursement memorandum is in place, dated September 27, 2019 and signed by Board of Directors Acting Chair, until the employee manual has been revised and approved by the Board of Directors. The manual will be updated and submitted to the Board for approval no later than Q1 2020.”

Poor Records Management

Criteria: The basic aspects of proper records management include the creation and maintenance of complete and accurate records.

Condition: The Connecticut Port Authority does not have a proper records management system. The authority did not maintain supporting documentation for some transactions. The authority stored contractual documents in emails or on employees’ personal computers instead of a central location. This made it difficult for employees to locate critical documents.

Out of 252 transactions selected from CPA bank accounts, 52 (totaling \$17,401) had no supporting documentation. Of the 52, 36 pertained to restaurant and hotel expenses, and 16 pertained to other expenses.

Effect: CPA could not support a significant portion of its transactions. Current CPA employees were unable to find documents we requested.

Cause: Change in staff and the lack of management oversight contributed to these conditions.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should establish official files or an electronic recordkeeping system with full records management functionality. The system should maintain all records by specific transaction, project, or subject to preserve the context of the records. Only

authorized employees should have access to agency files and the electronic recordkeeping system. (See Recommendation 4.)

Agency's Response: "CPA partially agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

Formal vendor and contract files were implemented by the Fiscal Administrative Assistant upon their hiring in September 2018.

By direction of the Governor, OPM with the assistance of outside consultants is in the process of shifting financial record keeping to industry standards.

At its September 2019 meeting, the CPA Board approved an MOU with OPM that provided for OPM to engage such consultants and resources as needed to oversee and evaluate the CPA's fiscal, organizational and administrative practices and to recommend and assist in the implementation of needed improvements in the CPA's organizational and business practices.

The consultant engaged by OPM to evaluate the sufficiency of CPA's business and organizational practices and structures is scheduled to complete its report of findings and recommendations in early December. Revised policies and procedures resulting from the consultant's report and other efforts underway at CPA will be brought forward for CPA Board consideration starting in December of this year and adopted no later than Q1 2020.

The CPA has entered into an engagement letter for its outside independent auditor to audit the CPA's FY2019 financial statements. As part of this effort, the Acting Chair has identified areas of concern or risk for closer evaluation and auditing."

Lack of Policies and Poor Documentation over Travel, Meals, and Entertainment Expenses

Criteria: Sound business practice dictates that each expense involving travel, meals, and entertainment be properly documented to substantiate these transactions. At a minimum, the authority should maintain the following records:

- Itemized receipt
- Date, time, and place of the event
- Business purpose of the expense
- Number of people and their names
- Business relationship of the individuals being entertained

Sound business practice also dictates that if the authority pays for business-related entertainment, travel, and meal expenses that include alcohol, it should establish policies that provide guidance regarding such expenses. Allowable expenses should be reasonable, necessary, and should consider the cost in relation to the contribution towards the furtherance of the authority's organizational objectives.

Condition: Our review included 141 travel, meal, and entertainment expense transactions, totaling \$21,977, during the fiscal years ended June 30, 2018 and 2019. We found the following:

- CPA could not document 36 transactions totaling \$5,754.
- CPA had itemized receipts for 17 transactions totaling \$2,701. However, the supporting documentation did not substantiate the business purpose for the expenses. Furthermore, 8 of these transactions, totaling \$1,910, included alcohol which appeared expensive.
- CPA had receipts for 71 transactions totaling \$7,316, but the receipts were not itemized and their supporting documentation did not substantiate the business purpose for the expenses.
- CPA spent \$541 on 2 transactions for hotel stays in Mystic. According to CPA records, one of the hotel stays was in correlation to the Western Container International Trade Association meeting; however, that meeting was held in Darien (90 miles away). According to CPA records, another Mystic hotel stay correlated to a one-day U.S. Army Corps of Engineers hearing in New Haven, at

which the executive director presented for about an hour. CPA could not tell us why it paid for a 2-night hotel stay in Mystic for this hearing.

- During 2 hotel stays, CPA paid \$571 in restaurant charges. The receipts for those expenses were not itemized, and the authority's documentation did not identify the people served.
- CPA spent \$67 on 2 transactions for cash withdrawals from its bank account. CPA informed us that these cash withdrawals were for tips.

Our review also included 5 transactions related to the purchase of office snacks and beverages totaling \$579 in March, April, and June 2018 and April 2019.

Effect: Without proper documentation, we were unable to determine whether many of the CPA meal, hotel, and entertainment expenses tested were reasonable and necessary.

Snack and beverage expenses appear to be excessive, considering the number of CPA employees.

Cause: The Connecticut Port Authority did not establish policies or procedures regarding entertainment, travel, meal, and alcohol expenses.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should adopt written policies and procedures governing its travel, meal, and entertainment expenses, including the requirements for supporting documentation and approval of such expenses. The authority should limit travel, meal, and entertainment costs to those that are reasonable and necessary to accomplish its mission and activities. CPA should ensure that its employees adhere to these policies. (See Recommendation 5.)

Agency's Response: "CPA agrees with the findings and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

The Authority is in the process of writing employee policies with the help from OPM and outside consultants, as well as through guidance from quasi-public agency CI, with which CPA has an MOU for HR-related matters.

An interim internal procedure is in place for reimbursable mileage, dated 27 September 2019 by Board of Directors Acting Chair, until formal policy can be written and approved by the board. In addition, the Acting Chair of the Board issued a directive that no travel or entertainment expenses are to be incurred without his prior approval and that such approvals would generally be limited to those expenses critical to the mission and purpose of the CPA. Further, any such expenses shall be reasonable, with limits similar to those applying to State employees. Drafts of new or updated policies and procedures will be submitted to the Board for its review and consideration no later than January 2020 and for adoption no later than Q1 2020.”

Excessive Legal Costs

Criteria: Sound business practice dictates that work assignments should be performed by individuals who are compensated at an appropriate level for the tasks performed. Assignments that are normally carried out by clerk-level employees should not be performed by highly paid professionals.

Condition: Connecticut Port Authority legal expenses totaled \$243,685 and \$670,720 during the fiscal years ended June 30, 2018 and 2019, respectively. Our review of 4 payments to attorneys, totaling \$45,067, disclosed that CPA, in many instances, requested attorneys to perform tasks that would typically be assigned to CPA employees at a significantly lower hourly rate. For example, outside attorneys responded to our general audit questions, drafted responses to our prior audit recommendations, drafted board-meeting agendas, assisted with the preparation of annual reports, and drafted various policies and procedures.

Additionally, invoices for legal services did not include critical information, such as itemized rates for each attorney by position and years of service. CPA employees informed us that they began requesting this specific information in May of 2019. Without such critical information, it is not clear how CPA was able to confirm the accuracy of the invoices.

Effect: The Connecticut Port Authority may have incurred excessive legal expenses.

Cause: It appears that CPA asked its outside attorneys to perform tasks that could have been performed by CPA employees at a significantly lower hourly rate.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should assign only legal and professional tasks to its legal and professional consultants. The authority should not assign work to higher paid consultants that could be performed by CPA employees at a lower hourly rate. (See Recommendation 6.)

Agency's Response: "CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

On 19 September 2019, the Board of Directors Acting Chair put in place internal procedures pertaining to guidance on use of legal counsel to reduce the dependence on legal counsel and the shifting of tasks to appropriate internal staff. The current contract for legal services is due to be reevaluated in November. The Board of Directors will conduct a public procurement to secure representation calibrated to the needs and budget of the Authority."

Selection of Consultants

Criteria: Sound business practice dictates that procurement of services should be done in the most cost-effective manner.

Connecticut Port Authority operating policies state that, in the case of any contract for personal services or agreements for personal property with a net expenditure in excess of \$50,000 in a fiscal year, CPA should award such contract on the basis of a process of competitive negotiation in which it solicits proposals from at least 3 qualified parties.

Condition: Our review of procurement of services at CPA revealed the following exceptions:

- CPA did not seek competitive bids for the selection of a business development consultant, although payments to the consultant totaled \$59,463 during the fiscal year ended June 30, 2018. Additionally, our review of CPA board minutes revealed that the board did not approve the hiring of this consultant until February

2018, which was 5 months after the consultant began providing the services.

- On March 6, 2019, CPA entered into a memorandum of understanding with Connecticut Innovations, Inc. without compensation for administrative services in the areas of human resources, time and labor, payroll, benefits, and Core-CT. On March 25, 2019, CPA also entered into an agreement with Karoli Consulting to provide human resources services for a fixed rate of \$70 per hour. Considering the agreement in place with Connecticut Innovations, Inc., we were unable to determine the need for the consultant.
- CPA obtained various quotations for the purchase of designer services, office remodeling, and office furniture. CPA chose the highest quotation for furniture, although it did not appear to offer a clear advantage over significantly lower cost alternatives. Additionally, state contractors generally provide design layout services free of charge for all new goods ordered.

Effect: The Connecticut Port Authority may have incurred excessive expenses.

Cause: The Connecticut Port Authority did not follow its own procurement policies.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should ensure that the procurement of services is performed in the most cost-effective manner. All procurement should be in compliance with established policies. (See Recommendation 7.)

Agency's Response: "CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

On 20 September 2019 the Acting Chair of the Board has issued a memorandum providing guidance with respect to the CPA procurement policy. The memo involves emphasizing the use of competitive processes,

even for smaller procurements, while identifying limitations on and processes related to use of sole source purchases.

OPM and DAS are currently providing oversight of CPA contracting. Several contracts (including Karoli Consulting) existed for services that were not critical to the mission and purpose of the CPA. Contracts are being reviewed to determine if they meet critical needs and are cost effective. Terminations or reductions have occurred in certain contracts to limit recurring expenses.

A revised purchasing policy was discussed by the Board at its September 2019 meeting, is currently in development and will be adopted no later than Q1 2020.”

Ethics Policy Conflict of Interest Provisions

Criteria: Section 1-101rr of the Connecticut General Statutes requires each quasi-public agency to develop ethics policies and coordinate ethics trainings programs for compliance with such ethics policies and the Code of Ethics for Public Officials. It also requires the agency’s ethics compliance officer to provide annual ethics training to agency employees involved in contractor selection, evaluation, and supervision.

A quasi-public agency’s ethics policy should specify how to identify, consider, and address actual or perceived conflicts of interest. In rare cases in which a related-party purchase is necessary or unavoidable, the policy should specifically address the rationale for the purchase.

Condition: The Connecticut Port Authority purchased \$3,250 in artwork from the daughter of the chair of its Finance Committee. The Finance Committee chair recused herself, but CPA had no formal policies in place to identify, consider, and address actual or perceived conflicts of interests. The chair of the Connecticut Port Authority Board of Directors approved the purchase of the pictures, but the authority had no policies that specifically identified the proper course of action.

Effect: The purchase seemed inappropriate and appeared to be a conflict. There was no compelling reason to purchase the pictures from the relative of a board member.

Cause: The Connecticut Port Authority lacked an ethics policy which specifically addressed related-party transactions and the specific steps to avoid actual or perceived conflicts of interest.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should adopt an ethics policy that provides a framework to identify, consider, and address actual or perceived conflicts of interests. The ethics policy should contain the specific measures to address related-party purchases when they are necessary or unavoidable. (See Recommendation 8.)

Agency's Response: "CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

The Chairman of the Finance committee recused herself from the issue and the Board Chairman, although consulted by the Executive Director, left the decision to the Executive Director to purchase the art work.

At the 5 September 2019 meeting of the Authority Board of Directors, a new Authority ethics policy was approved by the Board for immediate adoption. Additionally, an annual ethics training was conducted for board members and employees at the 5 September 2019 meeting.

Furthermore, to avoid any potential appearance of a conflict, the CPA took immediate steps to unwind the transaction. On 31 July 2019 the \$3,250 payment was returned to the CPA and the artwork was returned to the artist."

Lack of Policies for Credit Card Use:

Criteria: Sound business practice dictates the establishment of rules for employee use of authority credit cards.

Condition: The Connecticut Port Authority issued credit cards to its executive director and office manager during the audited period. CPA does not have employee credit card use policies.

Effect: The lack of formal complete written procedures increases the risk of misuse of authority credit cards.

Cause: The lack of management oversight contributed to the above condition.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should develop a credit card use policy. The policy must clearly communicate credit spending limits, allowable charges, and consequences for the inappropriate use of credit cards. Employees should store cards in a safe location, monitor the card account for fraudulent activities, and ensure card numbers are private. (See Recommendation 9.)

Agency's Response: "CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

Credit and debit cards in use have been canceled. A credit card policy for Authority credit cards in use by employees is in development and will be in place prior to the issuance of future cards."

Employees Misclassified as Consultants

Criteria: According to Internal Revenue Service (IRS) guidance, the classification of a worker as an employee, independent contractor, consultant, or other type of worker is based primarily on the degree of control the hiring organization has over the worker. If workers must follow the organization's instructions on when, where, and how to conduct their work, they are likely to be an employee.

Condition: During our prior audit, we found that the Connecticut Port Authority hired an intern and paid him as a consultant. During our current audit, we found that the authority took no corrective action to address this misclassification. Additionally, during the current audited period, CPA hired 2 more interns and paid them as consultants. The interns performed their duties at the discretion of the executive director, reported their hours on CPA timesheets, and were paid biweekly like the rest of the CPA employees.

Based on the functions these interns performed, it appears they were employees and should have been paid as employees.

<i>Effect:</i>	CPA did not withhold or pay income taxes, Social Security, Medicare, and unemployment taxes.
<i>Cause:</i>	Management did not properly apply IRS guidance regarding worker status classification.
<i>Prior Audit Finding:</i>	This finding has been previously reported in the last audit covering the fiscal years ended June 30, 2016 and 2017.
<i>Recommendation:</i>	The Connecticut Port Authority should take necessary corrective action to address the misclassification of interns or other temporary employees as consultants. (See Recommendation 10.)
<i>Agency's Response:</i>	"CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

With the assistance of outside consultants appointed by OPM and through guidance from quasi-public agency CI, with which CPA has an MOU for HR-related matters, the Authority is in the process of revising its operating procedures and hiring guidelines to eliminate future misclassifications of temporary employees as consultants. The updated policies and procedures will be submitted to the Board for approval no later than Q1 2020."

Noncompliance with Reporting Requirements

<i>Criteria:</i>	Section 15-31a(o) of the General Statutes requires, annually by January 1 st , the Connecticut Port Authority to submit to the Governor: (1) a list of projects which, if undertaken by the state, would support the state's maritime policies and encourage maritime commerce and industry; (2) recommendations for improvements to existing maritime policies, programs and facilities; and (3) such other recommendations as the board considers appropriate. The authority also must submit copies to the joint standing committee of the General Assembly having cognizance of matters relating to transportation, in accordance with the provisions of Section 11-4a.
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Section 15-31a(l) of the General Statutes requires, within 7 days of receiving an audit conducted by an independent auditing firm, the

Connecticut Port Authority to submit a copy to the joint standing committees of the General Assembly having cognizance of matters, in accordance with the provisions of Section 11-4a.

Condition: The Connecticut Port Authority did not submit the report required by Section 15-31a(o) for calendar year 2018.

Although an independent accounting firm audited the CPA financial statements for the fiscal years ended June 30, 2017 and 2018, the authority could not confirm whether it submitted them to the General Assembly.

Effect: The Connecticut Port Authority's failure to adhere to statutory reporting requirements prevented the distribution of information to the parties that need it to make informed decisions.

Cause: A lack of management oversight contributed to these conditions.

Prior Audit Finding: This finding has not been previously reported.

Recommendation: The Connecticut Port Authority should comply with the reporting requirements of Sections 15-31a(o), 15-31a(l), and 11-4a of the General Statutes. (See Recommendation 11.)

Agency's Response: "CPA agrees with the finding and recommendation.

In late-July the Governor took swift and decisive action to intervene in the operations of the Connecticut Port Authority (CPA), including: installing new leadership on the Board of Directors and at the staff-level; appointing the Office of Policy and Management (OPM) to oversee CPA's financial operations; and directing an independent third-party audit of the CPA's policies and procedures. The resources mobilized by the Governor in late-July are having a significant and timely impact on the efficacy of the CPA, with early corrective actions already underway.

CPA will comply with reporting requirements of Sections 15-31a(o) and 15-31a(1) and all other reporting requirements of the General Statutes in the future. A tracking tool for annual reporting requirements and deadlines is being developed and will be presented to the Board for approval no later than Q1 2020."

RECOMMENDATIONS

Status of Prior Audit Recommendations:

Our prior audit report on the Connecticut Port Authority contained 3 recommendations. One has been implemented or otherwise resolved and 2 have been repeated or restated with modifications during the current audit.

- The Connecticut Port Authority should develop and implement formal written procedures concerning affirmative action, personnel practices, the use of surplus funds and the distribution of loans, grants and other financial assistance. **This recommendation is being repeated with modifications. (See Recommendation 1.)**
- The Connecticut Port Authority should take corrective action as necessary to address the effects of misclassification of a temporary employee as a consultant. **This recommendation is being repeated. (See Recommendation 10.)**
- The Connecticut Port Authority should comply with the reporting requirements of Section 1-123 of the General Statutes. **This recommendation has been resolved.**

Current Audit Recommendations:

- 1. The Connecticut Port Authority should implement formal and complete written policies concerning the use of surplus funds, affirmative action, and ethics. CPA should provide its employees required annual ethics training. CPA also should ensure that it publishes notices to adopt procedures in the Connecticut Law Journal 30 days prior to their adoption.**

Comment:

We found that CPA had not properly adopted certain statutorily-required policies and procedures.

- 2. The Connecticut Port Authority should provide its employees with the necessary training and guidance to properly operate its accounting system.**

Comment:

We found problems with the operation of the Connecticut Port Authority's accounting system.

- 3. The Connecticut Port Authority should review its employee manual and make necessary changes to ensure that it is complete, consistent, and reflects the authority's practices. CPA should clarify its mileage reimbursement policy and require its employees to charge leave time when they are not at work.**

Comment:

We found that the CPA Employee Manual is incomplete, inconsistent, and does not reflect the authority's actual practices.

- 4. The Connecticut Port Authority should establish official files or an electronic recordkeeping system with full records management functionality. The system should maintain all records by specific transaction, project, or subject to preserve the context of the records. Only authorized employees should have access to agency files and the electronic recordkeeping system.**

Comment:

The Connecticut Port Authority does not have a proper records management system. The authority did not maintain supporting documentation for some transactions and stored contractual documents in emails or on employees' personal computers instead of a central location. This made it difficult for employees to locate critical documents.

- 5. The Connecticut Port Authority should adopt written policies and procedures governing its travel, meal, and entertainment expenses, including the requirements for supporting documentation and approval of such expenses. The authority should limit travel, meal, and entertainment costs to those that are reasonable and necessary to accomplish its mission and activities. CPA should ensure that its employees adhere to these policies.**

Comment:

We found a large number of exceptions related to travel, meal, and entertainment expense transactions.

- 6. The Connecticut Port Authority should assign only legal and professional tasks to its legal and professional consultants. The authority should not assign work to higher paid consultants that could be performed by CPA employees at a lower hourly rate.**

Comment:

The Connecticut Port Authority incurred excessive legal expenses. In many instances, CPA requested attorneys to perform tasks that would typically be assigned to CPA employees at a significantly lower hourly rate. Additionally, invoices for legal services did not include critical information such as itemized rates for each attorney by position and years of service.

- 7. The Connecticut Port Authority should ensure that the procurement of services is performed in the most cost-effective manner. All procurement should be in compliance with established policies.**

Comment:

The Connecticut Port Authority did not follow its own procurement policies or ensure that procurement was performed in the most cost effective way.

- 8. The Connecticut Port Authority should adopt an ethics policy that provides a framework to identify, consider, and address actual or perceived conflicts of interests. The ethics policy should contain the specific measures to address related-party purchases when they are necessary or unavoidable.**

Comment:

The Connecticut Port Authority purchased \$3,250 in artwork from the daughter of the chair of its Finance Committee. The chair of the Connecticut Port Authority Board of Directors approved the purchase of the pictures. The purchase seemed inappropriate and appeared to be a conflict. Furthermore, CPA lacked an ethics policy that specifically addressed related-party transactions and the specific steps to avoid actual or perceived conflicts of interest.

- 9. The Connecticut Port Authority should develop a credit card use policy. The policy must clearly communicate credit spending limits, allowable charges, and consequences for the inappropriate use of credit cards. Employees should store cards in a safe location, monitor the card account for fraudulent activities, and ensure card numbers are private.**

Comment:

The Connecticut Port Authority does not have employee credit card use policies.

- 10. The Connecticut Port Authority should take necessary corrective action to address the misclassification of interns or other temporary employees as consultants.**

Comment:

During our prior audit, we found that CPA hired an intern and paid him as a consultant. During our current audit, we found that the authority took no corrective action to address this misclassification, and additionally, hired 2 more interns and paid them as consultants.

- 11. The Connecticut Port Authority should comply with the reporting requirements of Sections 15-31a(o), 15-31a(l), and 11-4a of the General Statutes.**

Comment:

The Connecticut Port Authority did not submit the report required by Section 15-31a(o) for calendar year 2018. Additionally, although an independent accounting firm audited the CPA financial statements for the fiscal years ended June 30, 2017 and 2018, the authority could not confirm whether it submitted them to the General Assembly.

ACKNOWLEDGMENTS

The Auditors of Public Accounts would like to recognize the auditors who contributed to this report:

Tatsiana Sidarau
James Carroll

CONCLUSION

In conclusion, we wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Port Authority during the course of our examination.



Tatsiana Sidarau
Auditor II

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor